

**Clinton County
Regional Educational Service Agency
St. Johns, Michigan**

FINANCIAL STATEMENTS

June 30, 2008

Clinton County Regional Educational Service Agency

St. Johns, Michigan

BOARD OF EDUCATION

June 30, 2008

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Clinton County Regional Educational Service Agency

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Clinton County Regional
Educational Service Agency
St. Johns, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clinton County Regional Educational Service Agency as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Clinton County Regional Educational Service Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

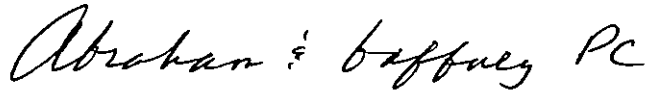
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Clinton County Regional Educational Service Agency as of June 30, 2008, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 13, 2008 on our consideration of the Clinton County Regional Educational Service Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Clinton County Regional Educational Service Agency's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

A handwritten signature in cursive script that reads "Abraham & Gaffney PC".

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 13, 2008

Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

This section of the Clinton County Regional Education Service Agency's annual financial report presents management's discussion and analysis of the Agency's financial performance during the fiscal year ended June 30, 2008.

USING THIS ANNUAL REPORT

The annual report consists of three main parts:

1) *Management's Discussion and Analysis*

This reporting model was adopted by the Governmental Accounting Standards Board (GASB) in *Statement No. 34 Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, issued in June, 1999. The Management's Discussion and Analysis explains what is contained in the audited financial statements, presents the financial position and results of operations, provides an analysis of balances and transactions of individual funds, analyzes the budget, breaks down the various categories of capital assets/debt and outlines any known factors affecting the Agency's future.

2) *Basic financial statements*

The basic financial statements include two kinds of statements that present different views of the Agency.

- The Statement of Net Assets and Statement of Activities

The District-wide statements report information about the Agency as a whole and are reported as governmental activities.

The two District-wide statements report the Agency's net assets and how they have changed. Over time, increases or decreases in the Agency's net assets are an indicator of whether its financial position is improving or deteriorating, respectively. To assess the overall health of the Agency consideration of non-financial factors, such as changes in the property tax base, physical condition of school buildings and political conditions at the state level should also be taken into account.

Business-type activities as interpreted by the Michigan Department of Education do not occur in this Agency.

The District-wide financial statements can be found on pages 1 and 2 of this report, with reconciliations to the fund level financial statements presented on pages 5 and 8.

- Fund Financial Statements

The fund financial statements provide more detailed information about the Agency's major funds - not the Agency as a whole. Funds are accounting devices the Agency uses to keep track of specific sources of funding and spending for a particular purpose. Some funds are required by State law and others the Agency's Board of Education establishes to control and manage money for particular purposes.

Governmental Funds

The Agency's basic services are included in governmental funds, which focus on how money flows in and out and the balances left at year-end that are available for spending.

MAJOR FUNDS for purpose of these statements are the:

- General Fund
- Special Education Fund
- Vocational Education Fund

Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

All other funds are presented in one combined column as **NONMAJOR GOVERNMENTAL FUNDS**. These would be:

- Debt Service Fund
- Capital Projects Fund

The fund financial statements are on pages 3-4 and 6-7.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the Agency. Fiduciary funds are not reflected in the District-wide financial statements because the resources of those funds are not available to support the Agency's own programs. Fiduciary fund information is reported on pages 9-10.

The financial statements also include notes, beginning on page 11, explaining some of the information in the statements as well as providing more detailed data.

3) *Required Supplementary Information*

The financial statements are followed by a section of required supplementary information that further explains and supports the financial statements by providing a comparison of the Agency's budgets for the major funds for the year. These are located on pages 24 through 26.

FINANCIAL POSITION AND RESULTS OF OPERATIONS

Net Assets

The Statement of Net Assets provides a perspective of the Agency as a whole and may serve over time as a useful indicator of a district's financial position. In Figure A-1, a comparative analysis of fiscal year 2008 is made to fiscal year 2007.

Figure A-1
Condensed Statement of Net Assets
As of June 30, 2008 and 2007

	Governmental Activities	
	2008	2007
Assets		
Current Assets	\$ 7,872,185	\$ 7,369,137
Capital Assets	6,934,887	7,044,406
Total Assets	14,807,072	14,413,543
Liabilities		
Current Liabilities	3,288,291	2,584,571
Long-Term Liabilities	2,777,283	3,053,774
Total Liabilities	6,065,574	5,638,345
Net Assets		
Invested in Capital Assets	4,052,697	3,908,821
Unrestricted	4,688,801	4,866,377
Total Net Assets	\$ 8,741,498	\$ 8,775,198

Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

The Agency is able to report positive balances in all categories of net assets. The \$4.68 million in unrestricted net assets represents the accumulated results of all past years' operations. It means that if all bills were paid off today, including all noncurrent liabilities (compensated absences, for example), there would be \$4.68 million remaining. The operating results of the Agency will have a significant impact on the change in unrestricted net assets from year to year.

Changes in Net Assets

Similar to the Statement of Net Assets, the Statement of Activities reports on the Agency as a whole. A summary of the District-wide results of operations for the year ended June 30, 2008 is found in Figure A-2, Changes in Net Assets from Operations, along with a comparison to year ended June 30, 2007.

The cost of the Agency's governmental activities this year was \$18.55 million. Certain activities were partially funded by those who benefited from the programs (\$2.23 million in charges for services) or by other governments and organizations that subsidized certain programs with grants and contributions (\$5.86 million in operating grants and \$70,434 in capital grants). The remaining portion of the governmental activities was paid with \$6.76 million in taxes, \$3.21 million in State Aid, and \$.38 million of other revenues, such as interest and general entitlements.

The Agency experienced a decrease in net assets of \$33,700 in the current year. The key reasons for the change in net assets were due to an increase in spending because of adding a new program, the Turning Point Youth Center.

Figure A-2
Change in Net Assets from Operations
Years Ended June 30, 2008 and 2007

	Governmental Activities	
	2008	2007
Revenues		
Program Revenues		
Charges for Service	\$ 2,230,638	\$ 1,982,612
Operating Grants	5,860,766	5,637,480
Capital Grants	70,434	70,434
General Revenues		
Property Taxes	6,767,102	6,322,855
State School Aid-unrestricted	3,218,118	3,096,110
Other	378,769	447,489
Total Revenues	18,525,827	17,556,980
Functions/Program Expenses		
Instruction	4,006,187	3,220,357
Supporting services	10,993,085	10,094,601
Community services	1,527	-
Payments to other districts	3,200,133	3,066,224
Interest on long-term debt	147,092	160,735
Unallocated depreciation	211,503	250,080
Total Expenses	18,559,527	16,791,997
Decrease in Net Assets	\$ (33,700)	\$ 764,983

Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

In Figure A-3, we have presented the cost of four of the Agency's largest functions and depreciation as well as each function's net cost (total cost less revenues generated by the activities). Net cost shows the financial burden that was placed on the Agency's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Figure A-3
Net Cost of Governmental Activities
Years Ended June 30, 2008 and 2007

	Total Cost of Services		Net Cost of Services	
	2008	2007	2008	2007
Governmental Activities				
Instruction	\$ 4,006,187	\$ 3,220,357	\$ 1,810,580	\$ 1,190,996
Support services	10,993,085	10,094,601	5,026,854	4,433,436
Community services	1,527	-	1,527	
Payments to other districts	3,200,133	3,066,224	3,200,133	3,066,224
Interest on long-term debt	147,092	160,735	147,092	160,735
Unallocated Depreciation	211,503	250,080	211,503	250,080
Total Governmental Activities	\$18,559,527	\$16,791,997	\$10,397,689	\$ 9,101,471

BALANCES & TRANSACTIONS OF INDIVIDUAL FUNDS

As the Agency completed the year, its governmental funds (as presented in the balance sheet on pages 3 and 4), reported a *combined* fund balance of \$4,953,157, which is less than last year's total of \$5,094,379.

BUDGETARY ANALYSIS

The Agency's budgets are prepared according to Michigan law and are initially adopted prior to July 1 of each year. State law also requires the budget be amended to ensure expenditures do not exceed appropriations. Schedules showing the Agency's original and final budgets compared with amounts actually received and paid from the General, Special Education and Vocational Education funds are provided in the Required Supplementary Information section of the financial statements on pages 24-26.

Two budget amendments were made throughout the fiscal year to deal with unexpected changes in revenues and expenditures. Revenue budgets are amended to reflect known information such as receipt of additional grant funds. Expenditure budgets rarely are altered, especially in the instructional and pupil support areas. Factors, which affected the final budgets and their relationship to actual activity, are listed below:

The General Fund balance changed due to the following factors:

1. The negative revenue variance of \$31,414 is a result of two key items. One is in regards to Federal grant funding and the other in regards to state grants. The variance for Federal grants was \$28,174 and the variance for state grants was \$19,396. The grant dollars, however, are not lost and typically are carried over to the subsequent fiscal year.
2. The expenditures have a positive (under expended) variance of \$210,166. This consists of these major items: instructional staff support services were under budget by \$67,057. This was due in a large part to several grants that were not fully expended (\$45,688) as well as the educational services and technical assistance components of the budget. Under-expended areas were basic program instruction by \$23,274 and added needs by \$20,988. Both of these were due to the LEA'S substitute teacher costs.

Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

3. The negative variance of \$113,241 for the other financing sources and uses are due largely to the LEA'S substitute teacher cost reimbursement. The estimates on these revenues are difficult to project and were less than anticipated by approximately \$116,197.

The Special Education Fund changed due to the following factors:

1. The negative revenue variance of \$216,533 is a result of two key factors. One factor is that local and state revenues were over (positive) the initial budget by \$70,356. This was a result of additional revenues received in the following areas: facility rent, delinquent property taxes, Medicaid school based services, and state categorical dollars. The other factor is that Federal revenues were under budget by \$286,889. These grant dollars, however, are not lost and typically are carried over to the subsequent fiscal year.
2. Total instruction (\$144,187), support services for instructional staff (\$253,565), and pupil support services (\$179,362) collectively were under budget by \$577,114. This was due largely to the under-expending of a portion of the Federal grants and optimal utilization of Federal dollars in conjunction with the use of State and local dollars.

The Vocational Education Fund balance changed due to the following factors:

1. The expenditures have a positive (under expended) effect of \$70,433. The major component of this amount was the instructional added needs expenditures which were under budget by \$61,766. The related items in this function were the program supply and equipment costs and the Career Preparation Coordinator position.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, as indicated in Figure A-4, the Agency had \$6.93 million invested in a broad range of capital assets, including buildings, furniture and equipment, vehicles, land and construction in progress. The values shown below are net of applicable accumulated depreciation, i.e. net book value at the beginning and end of the year.

Figure A-4
Capital Assets, Net
Years Ended June 30, 2008 and 2007

	Balance June 30, 2008	Balance June 30, 2007
Land	\$ 627,860	\$ 627,860
Buildings and additions	5,627,328	5,752,625
Equipment and furniture	670,633	648,888
Vehicles	9,066	15,033
Total	\$ 6,934,887	\$ 7,044,406

Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

Net additions to historical cost for the year were \$75,119, the majority of which were for equipment, furniture, and other assets. Additional information about the Agency's capital assets is contained in the notes to the financial statements on page 18.

Debt

At June 30, 2008, as indicated in Figure A-5, the Agency had \$2,466,305 in outstanding installment loans. The 2001 installment loan was for St. Johns facility and improvements to the Educational Center. The 2003 installment loan was for fiber optic cabling. There is also \$415,885 of Durant Resolution Bonds outstanding at June 30, 2008. The annual payment for the Durant bonds is made by the State of Michigan. According to the legislation enacted, if the State fails to appropriate the money to fund the bond payments, the District is under no obligation for the payment.

The District also has a compensated absence liability accumulated at June 30, 2008 in the amount of \$159,755.

State statutes limit the amount of General Obligation debt that an Agency may issue. The current debt limitation for the Clinton County Regional Education Service Agency is significantly greater than the outstanding debt of the Agency.

Additional information on the Agency's long-term debt can be found in the notes to the financial statements on pages 18 through 20.

Figure A-5
Outstanding Debt
Years Ended June 30, 2008 and 2007

	Balance June 30, 2008	Balance June 30, 2007
Durant Resolution Bonds	\$ 415,885	\$ 415,885
2001 Installment Loan	2,320,000	2,550,000
2003 Installment Loan	146,305	169,700
Compensated Absences	159,755	133,272
Total	\$3,041,945	\$3,268,857

Clinton County Regional Education Service Agency

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2008

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

The economy in the State of Michigan continues to be very depressed. After a decrease in 2004/05 of 15.27%, a 0% increase in 2005/06, a 3.1% increase in 2006/07, and a 0% increase in 2007/08, a 1% increase for section 81 funding is anticipated for fiscal year 2008/09. The pupil FTE (full time equated) count will increase due to taking on program responsibilities for the Turning Point Youth Center. An increase of \$100 per the FTE foundation allowance (\$7,204 to \$7,304) is projected from the state. The growth in the Agency's taxable value continues to generate less revenue from the state via millage equalization formulas. The growth in the taxable values are expected to taper off because of Michigan's economy which may enhance the equalization formula dollars to some degree but also result in less tax dollars for the district. Reductions and minimal growth in some of the major Federal grants has put more pressure on the use of local and state dollars. The Michigan Public School Employee Retirement System rate on employee earnings will be decreasing from 16.72% to 16.54%. This will have a small but positive affect on the Agency's budget. Employee health insurance premiums are expected to increase from 12% - 15% and alternative options (such as pooling) will always be considered. The Agency's one collective bargaining unit's contract expires 6/30/09 and will require re-negotiation. Other non-bargaining groups also have agreements that will require potential updates. These factors were considered in preparing the 2008/09 budgets.

REQUESTS FOR INFORMATION

This report is designed to give an overview of the financial conditions of the Clinton County Regional Education Service Agency. Questions concerning any of the information provided in this report or requests for additional information should be addressed to:

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BASIC FINANCIAL STATEMENTS

Clinton County Regional Educational Service Agency

STATEMENT OF NET ASSETS

June 30, 2008

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,165,622
Investments	3,163,245
Accounts receivable	50,092
Interest receivable	13,152
Due from other governmental units	1,965,055
Inventories	494,028
Prepays	20,991
	<hr/>
TOTAL CURRENT ASSETS	7,872,185
Noncurrent assets	
Capital assets not being depreciated	627,860
Capital assets, net of accumulated depreciation	6,307,027
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TOTAL NONCURRENT ASSETS	6,934,887
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TOTAL ASSETS	14,807,072
LIABILITIES	
Current liabilities	
Accounts payable	1,345,721
Accrued payroll	617,209
Accrued interest payable	22,072
Other accrued liabilities	232,360
Unearned revenue	723,738
Current portion of compensated absences	43,656
Current portion of long-term debt	303,535
	<hr/>
TOTAL CURRENT LIABILITIES	3,288,291
Noncurrent liabilities	
Noncurrent portion of interest payable	82,529
Noncurrent portion of compensated absences	116,099
Noncurrent portion of long-term debt	2,578,655
	<hr/>
TOTAL NONCURRENT LIABILITIES	2,777,283
	<hr/>
TOTAL LIABILITIES	6,065,574
NET ASSETS	
Invested in capital assets, net of related debt	4,052,697
Unrestricted	4,688,801
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TOTAL NET ASSETS	\$ 8,741,498
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See accompanying notes to financial statements.

Clinton County Regional Educational Service Agency

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants	Capital Grants	Governmental Activities
Governmental Activities					
Instruction	\$ 4,006,187	\$ 2,118,743	\$ 6,430	\$ 70,434	\$ (1,810,580)
Supporting services	10,993,085	111,895	5,854,336	-	(5,026,854)
Community services	1,527	-	-	-	(1,527)
Payments to other districts	3,200,133	-	-	-	(3,200,133)
Interest on long-term debt	147,092	-	-	-	(147,092)
Unallocated depreciation	211,503	-	-	-	(211,503)
Total expenses	<u>\$ 18,559,527</u>	<u>\$ 2,230,638</u>	<u>\$ 5,860,766</u>	<u>\$ 70,434</u>	(10,397,689)
General revenues					
Property taxes					6,767,102
State school aid - unrestricted					3,218,118
Investment earnings					201,945
Miscellaneous					176,824
Total general revenues					<u>10,363,989</u>
Change in net assets					(33,700)
Net assets, beginning of year					<u>8,775,198</u>
Net assets, end of year					<u>\$ 8,741,498</u>

See accompanying notes to financial statements.

Clinton County Regional Educational Service Agency

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2008

	General	Special Education	Vocational Education
ASSETS			
Cash and cash equivalents	\$ 273,828	\$ 1,885,553	\$ 5,190
Investments	1,237,920	1,592,442	-
Accounts receivable	17,242	32,850	-
Interest receivable	5,983	5,560	-
Due from other governmental units	339,450	1,220,389	405,216
Due from other funds	69,000	-	-
Inventories	-	-	494,028
Prepays	1,934	19,057	-
TOTAL ASSETS	\$ 1,945,357	\$ 4,755,851	\$ 904,434
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 210,459	\$ 536,519	\$ 598,743
Accrued payroll	14,408	592,392	10,409
Other accrued liabilities	85,457	144,366	2,537
Deferred revenue	446,362	277,376	-
Due to other funds	-	36,000	33,000
TOTAL LIABILITIES	756,686	1,586,653	644,689
FUND BALANCES			
Reserved for			
Inventories and prepaids	1,934	19,057	259,745
Unreserved			
Designated for future projects	280,000	966,000	-
Designated for capital projects	-	-	-
Undesignated, reported in			
General fund	906,737	-	-
Special revenue fund	-	2,184,141	-
TOTAL FUND BALANCES	1,188,671	3,169,198	259,745
TOTAL LIABILITIES AND FUND BALANCES	\$ 1,945,357	\$ 4,755,851	\$ 904,434

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,051	\$ 2,165,622
332,883	3,163,245
-	50,092
1,609	13,152
-	1,965,055
-	69,000
-	494,028
-	20,991
<u>\$ 335,543</u>	<u>\$ 7,941,185</u>
\$ -	\$ 1,345,721
-	617,209
-	232,360
-	723,738
-	69,000
-0-	2,988,028
-	280,736
-	1,246,000
335,543	335,543
-	906,737
-	2,184,141
<u>335,543</u>	<u>4,953,157</u>
<u>\$ 335,543</u>	<u>\$ 7,941,185</u>

Clinton County Regional Educational Service Agency

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

June 30, 2008

Total fund balance - governmental funds \$ 4,953,157

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 8,739,914	
Accumulated depreciation is	<u>(1,805,027)</u>	6,934,887

Long-term liabilities, including bonds payable, are not due and
payable in the current period and therefore are not reported as liabilities in
the funds. Long-term liabilities at year-end consist of:

Bonds and loans payable	(2,882,190)	
Accrued interest payable	(104,601)	
Compensated absences	<u>(159,755)</u>	(3,146,546)

Net assets of governmental activities \$ 8,741,498

See accompanying notes to financial statements.

Clinton County Regional Educational Service Agency

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2008

	General	Special Education	Vocational Education
REVENUES			
Local sources	\$ 523,483	\$ 5,375,836	\$ 1,724,381
State sources	786,627	2,286,207	230,877
Federal sources	188,631	4,735,917	837,996
TOTAL REVENUES	1,498,741	12,397,960	2,793,254
EXPENDITURES			
Current			
Instruction	550,419	2,716,158	823,152
Supporting services	1,741,488	8,946,133	278,981
Community services	-	1,527	-
Debt service	-	-	-
Capital outlay	-	-	-
TOTAL EXPENDITURES	2,291,907	11,663,818	1,102,133
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(793,166)	734,142	1,691,121
OTHER FINANCING SOURCES (USES)			
Transfers in	127,480	198,755	-
Payments from other districts	820,127	116,346	747,633
Other transactions	132,639	6,282	1,281
Transfers out	(311,625)	(457,726)	(10,000)
Payments to other districts	-	(773,272)	(2,426,861)
TOTAL OTHER FINANCING SOURCES (USES)	768,621	(909,615)	(1,687,947)
NET CHANGE IN FUND BALANCES	(24,545)	(175,473)	3,174
Fund balances, beginning of year	1,213,216	3,344,671	256,571
Fund balances, end of year	\$ 1,188,671	\$ 3,169,198	\$ 259,745

See accompanying notes to financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ 11,564	\$ 7,635,264
-	3,303,711
-	5,762,544
11,564	16,701,519
-	4,089,729
-	10,966,602
	1,527
390,616	390,616
18,442	18,442
409,058	15,466,916
(397,494)	1,234,603
453,116	779,351
-	1,684,106
-	140,202
-	(779,351)
-	(3,200,133)
453,116	(1,375,825)
55,622	(141,222)
279,921	5,094,379
\$ 335,543	\$ 4,953,157

Clinton County Regional Educational Service Agency

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

Net change in fund balances - total governmental funds **\$ (141,222)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$	101,984	
Depreciation expense		<u>(211,503)</u>	
Excess of depreciation expense over capital outlay			(109,519)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Debt principal retirement	253,395
---------------------------	---------

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

(Increase) in accrued interest payable	(9,871)		
(Increase) in compensated absences		<u>(26,483)</u>	
			<u>(36,354)</u>

Change in net assets of governmental activities **\$ (33,700)**

See accompanying notes to financial statements.

Clinton County Regional Educational Service Agency

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2008

	Private Purpose Trust Fund
ASSETS	
Cash and cash equivalents	\$ 1,028
Investments	20,615
Interest receivable	<u>102</u>
TOTAL ASSETS	21,745
LIABILITIES	
Accounts payable	<u>-</u>
NET ASSETS	
Held in trust for private purposes	<u>\$ 21,745</u>

See accompanying notes to financial statements.

Clinton County Regional Educational Service Agency

Fiduciary Fund

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended June 30, 2008

	Private Purpose Trust Fund
ADDITIONS	
Investment earnings	\$ 901
DEDUCTIONS	<u>(500)</u>
CHANGE IN NET ASSETS	401
Net assets, beginning of year	<u>21,344</u>
Net assets, end of year	<u>\$ 21,745</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Clinton County Regional Educational Service Agency have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The Agency's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Clinton County Regional Educational Service Agency (primary government). The Agency has no activities that would be classified as component units.

Based upon the application of these criteria, the financial statements of the Agency contain all the funds controlled by the Agency.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the agency as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The statement of activities presents the direct functional expenses of the Agency and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the Agency.

FUND FINANCIAL STATEMENTS

The Agency uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. The Agency utilizes governmental and fiduciary funds.

The governmental fund financial statements present the Agency's individual major funds and aggregated nonmajor funds. A separate column is shown for the major funds on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Nonmajor funds are combined and shown in a single column. The fiduciary funds are reported by type.

The major funds of the Agency are:

- a. General Fund - The General Fund is used to account for money or other resources provided to the Agency to support the educational programs and general operations of the Agency.
- b. Special Education Fund - The Special Education Fund is used to account for money or other resources provided to the Agency to support the special education programs and/or the distribution of funds to other local education agencies for operating special education programs.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

- c. Vocational Education Fund - The Vocational Education Fund is used to account for money or other resources provided to the Agency to support the vocational education programs.

3. Measurement Focus

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the district-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the Agency before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The Agency reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the Agency receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

5. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General and Special Revenue funds. All unexpended appropriations lapse at fiscal year end.

The Agency follows these procedures in establishing the budgetary data reflected in the financial statements:

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

5. Budgets and Budgetary Accounting - continued

- a. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by a Board of Education resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted at the functional level; however, they are maintained at the object level for control purposes.
- e. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the Board of Education.
- f. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
- g. The budget, as presented, has been amended in a legally permissible manner. Two (2) supplementary appropriations were made during the year with the final amendments being approved June 17, 2008.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of checking and savings accounts, pooled investment funds, and imprest petty cash. Cash equivalents are recorded at market value.

Investments consist of certificates of deposit with an original maturity of greater than 90 days. Investments are recorded at market value.

7. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the Agency for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments, related to the fiscal year ended June 30, 2008, to be paid in July and August 2008. The total amount of \$1,965,055 due from other governmental units consists of \$561,223 and \$1,403,832 related to State Aid and grant and local programs, respectively.

8. Inventories

Inventories are stated at cost on a first in/first out basis. Inventories consist of expendable supplies held for consumption. Inventory amounts are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

9. Prepays

Prepays such as insurance premiums, which are expected to be written off within the next fiscal year, are included in net current assets. Reported prepaids are equally offset by a fund balance reserve in the fund-level financial statements which indicates they do not constitute "available" spendable resources even though they are a component of net current assets.

10. Deferred Revenue

The unexpended balance of various federal and/or state categorical and local grants is carried forward as deferred revenue in governmental funds until the period in which eligible expenditures are incurred. Amounts shown as unearned revenue on the Statement of Net Assets relate to the same state categorical and local grants but are shown here because they are not earned.

11. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and additions	20 - 50 years
Equipment, furniture, and other assets	3 - 20 years
Vehicles	8 years

The Agency has no assets that would be classified as infrastructure assets.

12. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the Agency has recorded all liabilities associated with compensated absences. Accumulated vested vacation and severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

13. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements in two components: the portion of accrued interest payable that is due within one year is reported as a current liability, the remaining amount that is not due within one year has been reported as a noncurrent liability. The interest payable on the Durant Resolution bonds that was due May 15, 2003, 2004, 2005, 2007 and 2008 is shown as a noncurrent liability due to the State of Michigan deferring these interest payments until May 15, 2012.

14. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**14. Long-term Obligations - continued**

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the debt service fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

15. Property Taxes

Property taxes levied by the Agency are collected by various municipalities and periodically remitted to the Agency. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. The Agency property tax revenues are recognized when levied to the extent that they result in current receivables (collected within 60 days of year end). Amounts received subsequent to August 31 are recognized as revenue when collected. The Agency is permitted by the Constitution of the State of Michigan of 1963 to levy up to \$50 per \$1,000 assessed valuation for general governmental services other than the payment of Special Education, Vocational Education and Debt Service Fund expenditures. For the year ended June 30, 2008, the Agency levied the following mills per \$1,000 of assessed valuation:

<u>Fund</u>	<u>Mills</u>
General Fund	0.1964
Special Education Fund	2.6045
Vocational Education Fund	0.9570

16. County Special and Vocational Education Revenue Allocations

Beginning with the fiscal year ended June 30, 1997, the Agency allocates to the local school districts within the County excess funds remaining from a County-wide Special Education millage increase approved during that year.

The millage was collected by the Agency and the payments to the local districts were based on the most recent Agency budget at the time of allocation of excess revenues, after all Agency costs had been reimbursed. The allocation is paid pro rata based upon the K-12 pupil enrollment, including Special Education students enrolled at the Agency, of each district compared to the total County wide enrollment. The K-12 enrollment for each district is defined as the blended official count for the State foundation grant.

Beginning with the fiscal year ended June 30, 2004, the Agency allocates to the school districts within the County all funds from a County-wide Vocational Education millage levied in the current year.

The millage was collected by the Agency and the payments to the local districts were based on the average of the local district's percentage of the blended pupil count as it relates to the County as a whole and the local district's percentage of the taxable value as it relates to the County as a whole for the current fiscal year.

17. Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Transfers of resources to other funds are recorded as operating transfers. Transfers are netted as part of the reconciliation to the district-wide financial statements.

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

18. Reserved/Designated Fund Balance

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance indicates that portion of fund balance that the Agency has set aside for specific purposes.

19. Federal Programs

Federal programs are accounted for in the specific governmental funds to which they relate. The Agency has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

20. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the Agency is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or national bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or federal agency obligation repurchase agreements.
6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School Agency.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School Agency.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the Agency are at federally insured banks and credit unions in the State of Michigan in the name of the Agency.

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC) and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school Agency in a bank, savings and loan association, or credit union.

Deposits

As of June 30, 2008, the carrying amounts of the Agency's deposits were \$3,232,908 and the bank balance was \$3,622,320 of which \$304,322 was covered by federal depository insurance. The balance of \$3,317,998 was uninsured and uncollateralized. The Agency had \$700 of imprest cash on hand.

Investments

As of June 30, 2008, the Agency had the following investments:

<u>Investment type</u>	<u>Carrying Value</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investment funds			
MLAFP - Cash Management Fund	<u>\$ 2,116,902</u>	<u>\$ 2,116,902</u>	N/A

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2008, the District's investments in the Michigan Liquid Asset Fund were rated AAA by Standard & Poor's.

Interest rate risk

The District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities in the open market and investing operating funds primarily in shorter-term securities, liquid asset funds, money market mutual funds, or similar investment pools and limiting the average maturity in accordance with the District's cash requirements.

Concentration of credit risk

The District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

As of June 30, 2008, the cash and cash equivalents and investments referred to above have been reported in the cash and cash equivalents and investment captions in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Cash and cash equivalents	\$ 2,165,622	\$ 1,028	\$ 2,166,650
Investments	<u>3,163,245</u>	<u>20,615</u>	<u>3,183,860</u>
	<u>\$ 5,328,867</u>	<u>\$ 21,643</u>	<u>\$ 5,350,510</u>

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Due to significantly higher cash flow at certain periods during the year, the amount the Agency held as cash and cash equivalents increased significantly. As a result, the amount of uninsured and uncollateralized cash and cash equivalents were substantially higher at these peak periods than at year-end.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2008 was as follows:

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008
Governmental activities				
Capital assets not being depreciated				
Land	\$ 627,860	\$ -	\$ -	\$ 627,860
Capital assets being depreciated				
Buildings and additions	6,831,063	3,198	-	6,834,261
Equipment, furniture, and other assets	1,141,007	91,571	-	1,232,578
Vehicles	<u>64,865</u>	<u>7,215</u>	<u>(26,865)</u>	<u>45,215</u>
Subtotal	8,036,935	101,984	(26,865)	8,112,054
Less accumulated depreciation for:				
Buildings and additions	(1,078,438)	(128,495)	-	(1,206,933)
Equipment, furniture, and other assets	(492,119)	(69,826)	-	(561,945)
Vehicles	<u>(49,832)</u>	<u>(7,809)</u>	<u>21,492</u>	<u>(36,149)</u>
Subtotal	<u>(1,620,389)</u>	<u>(206,130)</u>	<u>21,492</u>	<u>(1,805,027)</u>
Net capital assets being depreciated	<u>6,416,546</u>	<u>(104,146)</u>	<u>(5,373)</u>	<u>6,307,027</u>
Capital assets, net	<u>\$ 7,044,406</u>	<u>\$(104,146)</u>	<u>\$(5,373)</u>	<u>\$ 6,934,887</u>

The current year depreciation expense of \$206,130 has been adjusted by \$5,373 for the disposal of capital assets during the year, in accordance with GASB Statement No. 34 implementation guide which states that immaterial losses be handled as an adjustment to the current period's depreciation expense.

Depreciation expense of \$211,503 was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the Agency for the year ended June 30, 2008.

	Balance July 1, 2007	Additions	Deletions	Balance June 30, 2008	Amounts Due within One Year
1998 Durant Resolution Bonds	\$ 415,885	\$ -	\$ -	\$ 415,885	\$ 39,199
2001 Installment Loan	2,550,000	-	(230,000)	2,320,000	240,000
2003 Installment Loan	169,700	-	(23,395)	146,305	24,336
Compensated Absences	<u>133,272</u>	<u>246,173</u>	<u>(219,690)</u>	<u>159,755</u>	<u>43,656</u>
	<u>\$ 3,268,857</u>	<u>\$ 246,173</u>	<u>\$(473,085)</u>	<u>\$ 3,041,945</u>	<u>\$ 347,191</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

Resolution Bonds

\$704,336 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments ranging from \$39,199 to \$245,394 with interest of 4.761353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan. The State of Michigan has suspended payment until May 15, 2009.

\$ 415,885

Installment Loans

\$3,600,000 Installment Purchase agreement dated October 21, 2001, due in annual installments ranging from \$240,000 to \$345,000 through May 1, 2016, with interest at 5.125 percent, payable semi-annually.

\$ 2,320,000

\$245,000 Installment Purchase agreement dated November 4, 2003, due in semi-annual installments ranging from \$12,048 to \$14,672 through November 1, 2013, with interest at 3.98 percent, payable semi-annually.

146,305

\$ 2,466,305

Compensated Absences - Compensated absences are made up of two (2) components, severance pay and accrued vacation.

Severance Pay - In recognition of services to the Agency, a severance payment is made to eligible employees with at least fifteen (15) years of service according to their respective employment contracts as follows:

<u>Years of Service</u>	<u>Amount</u>
15-20	\$40 per accumulated sick day
21-26	\$45 per accumulated sick day
27+	\$50 per accumulated sick day

The maximum benefit cannot exceed \$5,600.

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE D: LONG-TERM DEBT - CONTINUED

Under GASB Statement No. 16 requirements, the Agency has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The amounts for employees who currently are not vested are calculated taking total unused sick pay amounts at June 30, 2008, for all nonvested employees and multiplying it by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

A summary of the calculated amounts of accrued severance pay and related payroll taxes as of June 30, 2008, which has been recorded in the district-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Severance pay	\$ 60,457	\$ 66,424	\$ 126,881
Payroll taxes	<u>4,625</u>	<u>5,081</u>	<u>9,706</u>
	<u>\$ 65,082</u>	<u>\$ 71,505</u>	<u>\$ 136,587</u>

Accrued Vacation - Certain employees have vested rights upon termination of employment to receive payments for unused vacation. The dollar amount of these vested rights, including related payroll taxes, which have been recorded in the district-wide financial statements, amounted to approximately \$23,168 at June 30, 2008.

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

<u>Year Ending June 30,</u>	<u>Durant Resolution Bonds</u>		<u>Installment Loans</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 39,199	\$ 10,263	\$ 264,336	\$ 124,492
2010	41,063	8,397	280,314	111,214
2011	43,019	6,442	291,332	97,128
2012	245,394	86,923	307,390	82,488
2013	47,210	2,248	318,491	67,037
2014-2016	<u>-</u>	<u>-</u>	<u>1,004,442</u>	<u>103,304</u>
	<u>\$ 415,885</u>	<u>\$ 114,273</u>	<u>\$ 2,466,305</u>	<u>\$ 585,663</u>

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the Agency are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the Agency is under no obligation for payment of that year's debt obligation.

NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2008 are as follows:

Due to General Fund from:	
Special Education Fund	\$ 36,000
Vocational Education Fund	<u>33,000</u>
	<u>\$ 69,000</u>

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE E: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE F: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to General Fund from:	
Special Education Fund	\$ 117,480
Vocational Education Fund	<u>10,000</u>
	<u>\$ 127,480</u>
Transfers to Special Education Fund from:	
General Fund	<u>\$ 198,755</u>
Transfers to nonmajor governmental funds from:	
General Fund	\$ 112,870
Special Education Fund	<u>340,246</u>
	<u>\$ 453,116</u>

NOTE G: EMPLOYEE RETIREMENT SYSTEM

All of the Agency's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPSERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2007, the last year available, may be obtained by contacting the State of Michigan, Department of Management and Budget.

The payroll for employees covered by the MPSERS for the year ended June 30, 2008, was \$6,860,597 of which \$5,557,766 was for members who have elected the MIP option; the Agency's total payroll was \$7,069,571.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

Employees who did not elect the MIP option fall under the MPSERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987, to December 31, 1989, and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated wage; 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the period of July 1, 2007 to September 30, 2007, the Agency was required by State statute to contribute 17.74% of covered compensation for all wages to the Plan. For the period of October 1, 2007 to June 30, 2008 the Agency was required by State statute to contribute 16.72% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2008, and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>	<u>Total Contributions</u>
2008	\$ 213,726	\$ 1,158,674	\$ 1,372,400
2007	184,256	1,064,599	1,248,855
2006	185,026	981,762	1,166,788

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>
2008	4.0 %	16.9 %
2007	4.0	17.5
2006	4.0	16.0

NOTE H: FLEXIBLE BENEFITS PLAN

In April 1996 the Agency implemented a flexible benefits cafeteria plan established under Section 125 of the Internal Revenue Code. The plan is available to all employees who are eligible to have health coverage under the Agency's health insurance plan and have a benefit election form on file. The plan permits them to waive health insurance coverage from the Agency and receive a cash benefit in lieu of such health insurance. The plan also allows employees to reduce their salary and apply it to dependent care benefits.

The Plan is administered by Clinton County Regional Educational Service Agency.

Clinton County Regional Educational Service Agency

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

NOTE I: RISK MANAGEMENT

The Agency participates in a pool, the MASB-SEG Property and Casualty Pool with other school districts for boiler, property, fleet, liability, in-land marine, crime, data processing, and errors and omissions. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Agency has not been informed of any special assessments being required.

The Agency also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Agency has not been informed of any special assessments being required.

NOTE J: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff an agreed upon amount for past underfunding of special education. Clinton County Regional Educational Service Agency, a nonplaintiff district, was awarded \$1,408,672 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.
- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The Agency borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the Agency is under no obligation for the debt payments for that year. The Agency has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

NOTE K: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

As shown in the Budgetary Comparison Schedules, which are included as Required Supplementary Information to the financial statements, the Agency's budgeted expenditures in the major governmental funds have been adopted and shown at the functional classification level.

During the year ended June 30, 2008, the Agency incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
Special Education Fund			
Supporting Services			
Pupil transportation	\$ 1,029,410	\$ 1,075,124	\$ 45,714
Vocational Education Fund			
Supporting Services			
Central	62,236	62,925	689

REQUIRED SUPPLEMENTARY INFORMATION

Clinton County Regional Educational Service Agency

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 507,061	\$ 507,327	\$ 523,483	\$ 16,156
State sources	914,782	806,023	786,627	(19,396)
Federal sources	258,011	216,805	188,631	(28,174)
TOTAL REVENUES	1,679,854	1,530,155	1,498,741	(31,414)
EXPENDITURES				
Current				
Instruction				
Basic programs	472,487	516,159	492,885	23,274
Added needs	69,691	78,522	57,534	20,988
Total instruction	542,178	594,681	550,419	44,262
Supporting services				
Pupil	86,709	66,834	64,498	2,336
Instructional staff	1,104,458	889,322	822,265	67,057
General administration	299,910	304,193	290,051	14,142
Business	116,635	133,696	112,602	21,094
Operation and maintenance	33,048	32,250	26,450	5,800
Central	82,488	80,709	77,206	3,503
Other	417,887	400,388	348,416	51,972
Total supporting services	2,141,135	1,907,392	1,741,488	165,904
TOTAL EXPENDITURES	2,683,313	2,502,073	2,291,907	210,166
EXCESS OF REVENUES (UNDER) EXPENDITURES	(1,003,459)	(971,918)	(793,166)	178,752
OTHER FINANCING SOURCES (USES)				
Transfers in	111,251	125,798	127,480	1,682
Payments from other districts	992,264	936,324	820,127	(116,197)
Other transactions	109,333	131,395	132,639	1,244
Transfers out	(307,842)	(311,655)	(311,625)	30
TOTAL OTHER FINANCING SOURCES (USES)	905,006	881,862	768,621	(113,241)
NET CHANGE IN FUND BALANCE	(98,453)	(90,056)	(24,545)	65,511
Fund balance, beginning of year	1,213,216	1,213,216	1,213,216	-0-
Fund balance, end of year	<u>\$ 1,114,763</u>	<u>\$ 1,123,160</u>	<u>\$ 1,188,671</u>	<u>\$ 65,511</u>

Clinton County Regional Educational Service Agency

Special Education Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 5,206,430	\$ 5,350,950	\$ 5,375,836	\$ 24,886
State sources	2,751,196	2,240,737	2,286,207	45,470
Federal sources	5,702,493	5,022,806	4,735,917	(286,889)
TOTAL REVENUES	13,660,119	12,614,493	12,397,960	(216,533)
EXPENDITURES				
Current				
Instruction				
Added needs	2,875,706	2,860,345	2,716,158	144,187
Supporting services				
Pupil	3,591,762	3,761,775	3,582,413	179,362
Instructional staff	3,071,467	2,422,873	2,169,308	253,565
General administration	60,444	58,171	45,676	12,495
School administration	383,606	373,407	361,968	11,439
Business	331,480	389,136	351,971	37,165
Operation and maintenance	564,351	552,405	511,749	40,656
Pupil transportation	1,139,410	1,029,410	1,075,124	(45,714)
Central	888,911	889,026	847,924	41,102
Total supporting services	10,031,431	9,476,203	8,946,133	530,070
Community services	6,100	6,552	1,527	5,025
TOTAL EXPENDITURES	12,913,237	12,343,100	11,663,818	679,282
EXCESS OF REVENUES OVER EXPENDITURES	746,882	271,393	734,142	462,749
OTHER FINANCING SOURCES (USES)				
Transfers in	196,787	198,755	198,755	-0-
Payments from other districts	106,682	106,682	116,346	9,664
Other transactions	9,000	1,700	6,282	4,582
Transfers out	(441,501)	(470,519)	(457,726)	12,793
Payments to other districts	(717,500)	(781,803)	(773,272)	8,531
TOTAL OTHER FINANCING SOURCES (USES)	(846,532)	(945,185)	(909,615)	35,570
NET CHANGE IN FUND BALANCE	(99,650)	(673,792)	(175,473)	498,319
Fund balance, beginning of year	3,344,671	3,344,671	3,344,671	-0-
Fund balance, end of year	\$ 3,245,021	\$ 2,670,879	\$ 3,169,198	\$ 498,319

Clinton County Regional Educational Service Agency

Vocational Education Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2008

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Local sources	\$ 1,718,735	\$ 1,718,735	\$ 1,724,381	\$ 5,646
State sources	205,350	230,000	230,877	877
Federal sources	830,438	836,385	837,996	1,611
TOTAL REVENUES	2,754,523	2,785,120	2,793,254	8,134
EXPENDITURES				
Current				
Instruction				
Added needs	876,305	884,918	823,152	61,766
Supporting services				
Pupil	6,000	6,000	6,000	-0-
Instructional staff	176,328	173,597	172,762	835
General administration	650	650	600	50
Business	2,965	11,450	10,884	566
Operation and maintenance	33,980	33,715	25,810	7,905
Central	55,943	62,236	62,925	(689)
Total supporting services	275,866	287,648	278,981	8,667
TOTAL EXPENDITURES	1,152,171	1,172,566	1,102,133	70,433
EXCESS OF REVENUES OVER EXPENDITURES	1,602,352	1,612,554	1,691,121	78,567
OTHER FINANCING SOURCES (USES)				
Payments from other districts	747,633	747,633	747,633	-0-
Other transactions	1,200	1,100	1,281	181
Transfers out	(10,000)	(10,000)	(10,000)	-0-
Payments to other districts	(2,428,434)	(2,428,434)	(2,426,861)	1,573
TOTAL OTHER FINANCING SOURCES (USES)	(1,689,601)	(1,689,701)	(1,687,947)	1,754
NET CHANGE IN FUND BALANCE	(87,249)	(77,147)	3,174	80,321
Fund balance, beginning of year	256,571	256,571	256,571	-0-
Fund balance, end of year	\$ 169,322	\$ 179,424	\$ 259,745	\$ 80,321

OTHER SUPPLEMENTARY INFORMATION

Clinton County Regional Educational Service Agency

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2008

	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
ASSETS			
Cash and cash equivalents	\$ -	\$ 1,051	\$ 1,051
Investments	-	332,883	332,883
Interest receivable	-	1,609	1,609
TOTAL ASSETS	<u>\$ -0-</u>	<u>\$ 335,543</u>	<u>\$ 335,543</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES	\$ -	\$ -	\$ -0-
FUND BALANCES			
Unreserved			
Designated for capital projects	-	335,543	335,543
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -0-</u>	<u>\$ 335,543</u>	<u>\$ 335,543</u>

Clinton County Regional Educational Service Agency

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES

Year Ended June 30, 2008

	Debt Service	Capital Projects	Total Nonmajor Governmental Funds
REVENUES			
Local sources	\$ -	\$ 11,564	\$ 11,564
EXPENDITURES			
Debt service	390,616	-	390,616
Capital outlay	-	18,442	18,442
TOTAL EXPENDITURES	390,616	18,442	409,058
EXCESS OF REVENUES (UNDER) EXPENDITURES	(390,616)	(6,878)	(397,494)
OTHER FINANCING SOURCES			
Transfers in	390,616	62,500	453,116
NET CHANGE IN FUND BALANCES	-0-	55,622	55,622
Fund balances, beginning of year	-	279,921	279,921
Fund balances, end of year	\$ -0-	\$ 335,543	\$ 335,543

**Clinton County Regional
Educational Service Agency**

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2008

Clinton County Regional Educational Service Agency

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Education
Clinton County Regional
Educational Service Agency
St. Johns, Michigan

Compliance

We have audited the compliance of Clinton County Regional Educational Service Agency with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2008. Clinton County Regional Educational Service Agency's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major Federal programs is the responsibility of Clinton County Regional Educational Service Agency's management. Our responsibility is to express an opinion on Clinton County Regional Educational Service Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Clinton County Regional Educational Service Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Clinton County Regional Educational Service Agency's compliance with those requirements.

In our opinion, Clinton County Regional Educational Service Agency complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2008.

Internal Control Over Compliance

The management of Clinton County Regional Educational Service Agency is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Clinton County Regional Educational Service Agency's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Clinton County Regional Educational Service Agency's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

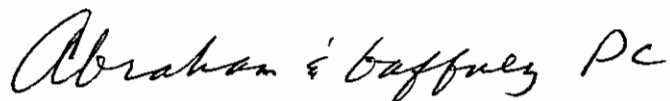
A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weakness. We did not identify any deficiencies in internal control over compliance that we considered to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clinton County Regional Educational Service Agency as of and for the year ended June 30, 2008, and have issued our report thereon dated November 13, 2008. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Clinton County Regional Educational Service Agency's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and management of Clinton County Regional Educational Service Agency, others within the agency, the pass-through grantors, and the Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 13, 2008

Clinton County Regional Educational Service Agency

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>GENERAL FUND</u>			
U.S. Department of Education (Direct Program)			
2006-07 REAP	84.358	S358A062495	\$ 30,067
2007-08 REAP		S358A072495	26,009
			<hr/> 56,076
U.S. Department of Education Passed through State Department of Education and Central Michigan University Math and Science Partnership	84.366	072410-MSPF2007	175,000
Improving Teacher Quality	84.367	060290	11,640
Passed through State Department of Education I.E.P., Title V	84.298		
2006-07		0702500607	96
2007-08		0802500708	97
			<hr/> 193
Title IIA - Improving Teacher Quality	84.367		
2006-07 Regional Allocation		0705200607	456
2007-08 Regional Allocation		0805200708	456
			<hr/> 912
Freedom to Learn	84.318		
2006-07		07042402-1	162,141
Corporation for National and Community Service Passed through Michigan Community Service Commission Learn & Serve	94.004	MCSC/SBLS/F-137/07	24,500
Passed through Michigan Department of Labor and Economic Growth and Eaton Intermediate School District Learn & Serve	94.004	MCSC/SBLS/F-139/07	16,933
			<hr/> 447,395
TOTAL GENERAL FUND EXPENDITURES OF FEDERAL AWARDS			447,395

<u>(Memo Only) Restated Prior Years' Expenditures</u>	<u>Balance July 1, 2007 Accrued or (Deferred) Revenue</u>	<u>Cash Receipts/ In Kind Payments</u>	<u>Expenditures</u>	<u>Balance June 30, 2008 Accrued or (Deferred) Revenue</u>
\$ 25,148 -	\$ 1,632 -	\$ 6,551 3,240	\$ 4,919 2,682	\$ -0- (558)
25,148	1,632	9,791	7,601	(558)
-	-	-	8,049	8,049
11,240	4,461	4,461	-	-0-
96 -	96 -	96 -	- 97	-0- 97
96	96	96	97	97
456 -	8 -	8 439	- 456	-0- 17
456	8	447	456	17
1,852	1,726	119,083	160,289	42,932
18,098	10,628	17,030	6,402	-0-
11,197	7,910	13,647	5,737	-0-
68,087	26,461	164,555	188,631	50,537

Clinton County Regional Educational Service Agency

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>SPECIAL EDUCATION FUND</u>			
U.S. Department of Education			
Passed through State Department of Education			
Title I Part D	84.013		
Turning Point			
2007-08		081700-0708	\$ 138,891
Special Education 94-142 ^{(d)(e)}	84.027		
Flow Through			
2005-06 Regular		0604500506	1,956,579
2006-07 Regular		0704500607	1,987,305
2007-08 Regular		0804500708	2,024,187
State Initiated			
2006-07 Competitive		070480EOSD	50,000
2007-08 Competitive		080480EOSD	50,000
2006-07 Department		070490TS	60,000
2007-08 Department		080490TS	50,000
Special Education IDEA			
2006-07 ISD		0704701D2	1,010,000
2007-08 ISD		0804701D2	1,025,000
2006-07 ISD		0704702D2	150,000
2007-08 ISD		0804702D2	200,000
2007-08 Self Review		0804400708	2,400
			8,565,471
Special Education 94-142 ^{(d)(e)}			
Preschool Incentive	84.173		
2006-07 Regular		0704600607	77,373
2007-08 Regular		0804600708	77,596
			154,969
U.S. Department of Education			
Special Education - Grants for Infants and Families with Disabilities	84.181		
2006-07 Competitive		071320290CSPDI	1,378,100
2007-08 Competitive		081320290CSPDI	725,000
2006-07 Formula		071340190	109,793
2007-08 Formula		081340190	113,162
2007-08 Competitive		081320PAIR1	290,000
			2,616,055

(Memo Only) Restated Prior Years' Expenditures	Balance July 1, 2007 Accrued or (Deferred) Revenue	Cash Receipts/ In Kind Payments	Expenditures	Balance June 30, 2008 Accrued or (Deferred) Revenue
\$ -	\$ -	\$ 61,575	\$ 82,025	\$ 20,450
27,102	2,889	2,889	-	-0-
2,894,248	336,531	395,536	93,057	34,052
-	-	1,640,258	2,004,625	364,367
50,000	4,088	4,088	-	-0-
-	-	49,421	50,000	579
60,000	13,349	13,349	-	-0-
-	-	43,726	50,000	6,274
518,430	151,219	642,789	491,570	-0-
-	-	266,846	384,121	117,275
46,225	5,258	109,033	103,775	-0-
-	-	80,363	87,100	6,737
-	-	450	2,400	1,950
3,596,005	513,334	3,248,748	3,266,648	531,234
77,373	5,295	5,295	-	-0-
-	-	68,803	77,596	8,793
77,373	5,295	74,098	77,596	8,793
676,480	109,739	811,359	701,620	-0-
-	-	251,987	328,250	76,263
94,109	25,449	41,133	15,684	-0-
-	-	94,012	108,605	14,593
-	-	101,264	125,300	24,036
770,589	135,188	1,299,755	1,279,459	114,892

Clinton County Regional Educational Service Agency

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended June 30, 2008

Federal Grantor/ Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
<u>SPECIAL EDUCATION FUND - CONTINUED</u>			
U.S. Department of Education			
Passed through CAST, Inc			
Accessible Instruction Materials	84.327		
2007-2008		H327S070003	\$ 166,666
U.S. Department of Health and Human Services			
Passed through Michigan Dept. of Community Health			
Medicaid Title XIX	93.778		
School Based Services (Transportation) ^(b)		2978001	-
TOTAL SPECIAL EDUCATION FUND EXPENDITURES OF FEDERAL AWARDS			11,642,052
<u>VOCATIONAL EDUCATION FUND</u>			
U.S. Department of Education			
Passed through State Department of Education			
Vocational Education ^(d)	84.048		
2006-07 Regional Allocation		0735207012-14	775,758
2007-08 Regional Allocation		0835208012-14	807,301
			1,583,059
Passed through State Department of Education and Lansing Community College			
Vocational Education	84.243		
2007-08 Tech-Prep Education		8014-14	30,695
TOTAL VOCATIONAL EDUCATION FUND EXPENDITURES OF FEDERAL AWARDS			1,613,754
TOTAL FEDERAL AWARDS			\$ 13,703,201

(Memo Only) Restated Prior Years' Expenditures	Balance July 1, 2007 Accrued or (Deferred) Revenue	Cash Receipts/ In Kind Payments	Expenditures	Balance June 30, 2008 Accrued or (Deferred) Revenue
\$ -	\$ -	\$ -	\$ 25,168	\$ 25,168
-	-	5,021	5,021	-0-
4,443,967	653,817	4,689,197	4,735,917	700,537
775,758	234,348	234,348	-	-0-
-	-	444,075	807,301	363,226
775,758	234,348	678,423	807,301	363,226
-	-	30,695	30,695	-0-
775,758	234,348	709,118	837,996	363,226
\$ 5,287,812	\$ 914,626	\$ 5,562,870 (c)	\$ 5,762,544 (a)	\$ 1,114,300

Clinton County Regional Educational Service Agency

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2008

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the Agency and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (e) represent explanations that cross reference to amounts and headings on the Schedule of Expenditures of Federal Awards.

- (a) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (b) The reimbursements for these programs are based on a fixed unit rate for each allowable service provided. Expenditures have been reported to the extent of earned revenues.
- (c) The amounts reported in this schedule as cash received are in agreement with the cumulative payment amounts in the Grants Section Auditors Report and the "paid during date range" amounts on the Grant Auditor Report combined, less the receipt adjustments for grants that overlapped from prior years as follows:

<u>Grant #</u>	<u>Payment Amounts Per Reports</u>	<u>Less: Prior Year Receipts</u>	<u>Other Differences</u>	<u>Cash Receipts Per Current SEFA</u>
0704701D2	\$ 1,010,000	\$ 367,211	\$ -	\$ 642,789
0704702D2	150,000	40,967	-	109,033
071320290CSPDI	1,378,100	-	(566,741)	811,359

- (d) Denotes programs tested as "major programs".
- (e) Denotes programs required to be clustered by the United States Department of Education.

NOTE C: MEDICAID ADMINISTRATIVE OUTREACH

The following summarizes the financial activity related to Medicaid Administrative Outreach funding that has been deferred in the Agency's financial statements:

Deferred revenue - July 1, 2007	\$ 129,444
Revenue deferred during the year	<u>43,045</u>
Deferred revenue - June 30, 2008	<u>\$ 172,489</u>

The amounts deferred are the result of possible repayments that may be made in the future resulting from the back casting process. The Agency will be evaluating past history related to these funds and a reasonable proration will be distributed to the local districts during the fiscal year ending June 30, 2008.

Clinton County Regional Educational Service Agency

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
PROVIDED TO SUBRECIPIENTS

Vocational Education Fund

Year Ended June 30, 2008

<u>Program Title/ Subrecipient (School District)</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Grantor's Number</u>	<u>Program or Award Amount</u>	<u>(Memo Only) Prior Years' Expenditures</u>
Vocational Education				
Regional Allocation	84.048			
2007-08				
Eaton Intermediate School District		0835208012-14	\$ 113,749	\$ -
Ingham Intermediate School District		0835208012-14	220,449	-
Lansing School District		0835208012-14	374,655	-
			<u>\$ 708,853</u>	<u>\$ -0-</u>

<u>Balance July 1, 2007</u>	<u>Cash Transferred to Subrecipient</u>	<u>Subrecipient Expenditures</u>	<u>Balance June 30, 2008</u>
<u>Due From/(To) Subrecipient</u>			<u>Due From/(To) Subrecipient</u>
\$ -	\$ 113,749	\$ 113,749	\$ -0-
-	220,449	220,449	-0-
-	374,655	374,655	-0-
<u>\$ -0-</u>	<u>\$ 708,853</u>	<u>\$ 708,853</u>	<u>\$ -0-</u>

Principals

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Clinton County Regional
Educational Service Agency
St. Johns, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Clinton County Regional Educational Service Agency as of and for the year ended June 30, 2008, which collectively comprise Clinton County Regional Educational Service Agency's basic financial statements and have issued our report thereon dated November 13, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Clinton County Regional Educational Service Agency financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control over financial reporting.

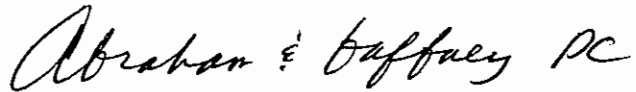
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Clinton County Regional Educational Service Agency's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the administration, the Board of Education of Clinton County Regional Educational Service Agency, others within the Agency, the pass-through entities, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Abraham & Gaffney PC". The script is cursive and fluid, with the letters "A" and "G" being particularly large and stylized.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

November 13, 2008

Clinton County Regional Educational Service Agency

SCHEDULE OF FINDINGS

Year Ended June 30, 2008

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported by Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
84.027, 84.173 84.048	Special Education Cluster Vocational Education Basic Grants

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee? _____ Yes X No

Section II - Financial Statement Findings

None

Section III - Federal Award Findings and Questioned Costs

None

Clinton County Regional Educational Service Agency
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
Year Ended June 30, 2008

FINDINGS/NONCOMPLIANCE

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

2006-1 Subrecipient Monitoring

Condition: Perkins III Passed through the Michigan Department of Education - CFDA 84.048; Grant No. 0635206012-14; Grant period FY 2005-06.

During our review of the process related to subrecipient monitoring for the above noted grant it was determined that the Agency did not provide adequate follow-up monitoring at year-end (i.e., getting subrecipient audit reports, etc.).

Resolution: The Agency implemented monitoring procedures and performed the required monitoring procedures. We consider this issue resolved.